

Program Summary
Arizona Department of Administration
Workers' Compensation

Program Overview

The Workers' Compensation Program is administered by the Arizona Department of Administration (ADOA), Risk Management Division. The Workers' Compensation Program covers approximately 84,000 employees and funds payments to beneficiaries for the state's liability in workplace injuries, hospital and medical expenses, and premiums for supplemental insurance.

The mission of the Workers' Compensation Program is "to provide timely, high quality, and cost effective services to state employees who have work-related injuries."

Risk Management receives approximately 3,750 workers' compensation claims each year. Action on these claims ranges from denial of benefits to lifetime payments. Risk Management assigns a claims adjuster to review and accept workers' compensation claims from injured state employees. During the review, claims adjusters look for clear evidence of an on-the-job injury. If doubt exists concerning the cause of the injury, a risk management investigator will review the case. The investigator will interview employees and other witnesses, and the injured employee may be required to receive an independent medical examination (IME). If an employee is on permanent disability, Risk Management will periodically check on the injured employee to make certain the individual is still disabled and has not become employed.

Risk Management attempts to prevent workers' compensation claims resulting from accidents caused by similar hazards by creating loss prevention plans. Because of the large volume of workers' compensation claims, a loss prevention plan is not created in response to every case. A determination on whether or not to follow up claims with a loss prevention plan is based on monitoring the frequency and severity of claims.

Program Funding

The Workers' Compensation Program receives funding from the Risk Management Revolving Fund (RMRF). This fund receives revenues through (1) a charge assessed to state agencies insured under the state's risk management system, and (2) recoveries by the state through litigation. Each agency's risk management charge is based on many factors. Some of these factors are prior losses, current exposures, an outside actuarial study, and the estimated statewide funding level for the fiscal year.

In FY 2006, the Workers' Compensation (W/C) Special Line Item (SLI) is funded at \$24.6 million, *shown on the W/C line in Table 1*. This is an increase of \$1.5 million or 6.7% over FY 2005.

Table 1

**Workers' Compensation Program
Funding History**

<u>SLI's</u>	<u>FY 2001</u>	<u>FY 2005</u>	<u>FY 2006</u>
External	N/A	N/A	\$200,000
Non-Legal	N/A	N/A	561,000
W/C	N/A	23,044,400	24,587,500
Total	\$21,723,400	\$23,044,400	\$25,348,500

However, the budget format for the Risk Management Division was restructured in FY 2006. Funding reductions related to External Legal Services and Non-Legal Related Expenditures were transferred from the Worker's Compensation Losses and Premiums Line Item to their own SLI's in order to distinguish between the state's losses (Workers' Compensation Losses and Premiums), fees for private counsel (External Legal Services), and other related expenditures (Non-Legal Related Expenditures). Prior to FY 2006 the expenditure line item was called Workers' Compensation Losses, Premiums, and Related Expenditures.

Accordingly, the FY 2006 funding amount for the Workers' Compensation Losses and Premiums SLI includes 3 adjustments from FY 2005, listed in *Table 2*.

Table 2

	<u>FY 2006 Adjustments</u>
External Legal Services	\$(200,000)
Non-Legal Related Expenditures	(561,000)
Actuarial Estimates	2,304,100
Total	\$1,543,100

Including the adjustments due to SLI changes (described above), the increased funding for the Workers' Compensation Program was \$2.3 million or 10% more than the FY 2005 amount.

Performance Measures

Table 3 includes the performance measures ADOA and Risk Management use to assess the performance of the Workers' Compensation Program. The workers' compensation incidence rate per 100 FTE positions is the only measure included in the General Appropriation Act.

Although the division has an impact on the measures concerning the customer satisfaction and the percentage of claims reported within 48 hours, the actual value is assigned or determined by other state agencies. As a result these measures do not portray the efficiency of the Workers' Compensation Program, but rather they portray the level of interagency coordination and cooperation. The division should develop more measures indicating the efficiency and effectiveness of its activities. One example is the workers' compensation incidence rates/100 FTE's. This measure indicates the general effectiveness of Risk Management in reducing or preventing ongoing claims through efforts such as loss prevention plans.

Another possible example of an efficiency measure, would be a measure that demonstrates the dollar loss per claim (total \$ loss / total workers' compensation claims). This measure would indicate the Program's effectiveness in mitigating costs of workers' compensation claims.

The division also could have an agency or division specific measure that shows the impact a Risk Management sponsored loss prevention program has on deterring workers' compensation claims. In other words, a measure could be used to compare the number of claims (or dollar value of claims) before a loss prevention program and after a loss prevention programs.

Table 3

**Workers' Compensation Program
Performance Measures**

<u>Performance Measure</u>	<u>FY 2004 Actual</u>	<u>FY 2006 Estimate</u>
Customer satisfaction with worker's compensation (1 – 8 scale)	6.4	6.5
Total dollar losses of workers' compensation claims (in millions)	19.7	18.5
Workers' compensation incidence rates/100 FTE Positions	5.2	5.4
Percentage of workers' compensation claims reported within 48 hours	75	75